

MINUTES
BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, Indiana 46204
January 21, 2005

EXECUTIVE SESSION

Trustees Present

Jonathan Birge, Chair
Richard Doermer, Vice Chair
Garland Ferrell, Trustee
Connie Thurman, Trustee
Bob Welch, Trustee

Others Present

Bruce Kimery, Acting Executive Director
Leisa Julian, General Counsel
Mary Beth Braitman, Ice Miller
Jim Hartman, Clifton Gunderson
Michelle Hartman, Clifton Gunderson
Enrico Tolentino, Clifton Gunderson

REGULAR SESSION

Trustees Present

Jonathan Birge, Chair
Richard Doermer, Vice Chair
Garland Ferrell, Trustee
Connie Thurman, Trustee
Bob Welch, Trustee

Others Present

Elaine Beaty, McCready & Keene
Mary Beth Braitman, Ice Miller
Scott Nickerson, Crowe Chizek
Alan Rachles, Crowe Chizek
Douglas Todd, McCready & Keene

PERF Staff Present

Bruce Kimery, Acting Executive Director
Bruce Fink, Chief Investment Officer

Patrick Henn, Internal Auditor
Michael Horstman, Chief Financial Officer
Clay Jackson, Chief Internal Auditor
Leisa Julian, General Counsel

Linda Villegas, Staff Attorney
Cindy Osborne, Minute Writer

The Board of Trustees meeting was called to order by Chair Birge

I. APPROVAL OF THE MINUTES

MOTION duly made and carried to approve the Minutes of the December 17, 2004 Board of Trustees meeting.

<i>Proposed by:</i>	<i>Garland Ferrell</i>
<i>Seconded by:</i>	<i>Connie Thurman</i>
<i>Votes:</i>	<i>Five in favor, 0 against, 0 abstentions</i>

II. OLD BUSINESS

A. SBOA Audit Update: Mr. Kimery passed out a copy of the financial audit scorecard that has the status of the 24 financial audit findings. He explained that the findings marked by green have been completed and the ones marked by yellow were in process of completion. Mr. Kimery will provide a running total of the status of the findings starting next month.

B. Internal Audit Update: Mr. Jackson reported that the Internal Audit Department is currently working on SIRIS users testing and retirement refunds testing. Both are special projects requested by management. These projects should be completed by mid February.

Mr. Jackson provided an update on the status of internal audit findings from June 2004 through January 2005. Currently, there are nine open findings. There were 15 open findings in December of 2004 so there has been substantial progress made. Four of the nine open findings are in the New Member/New Employer Group Enrollment Audit, which was issued in March 2004. There is one finding (down from seven) in the Tax Reporting Audit, which was issued in June 2004. There are two open findings in the Death Benefits Audit, which was issued in August 2004. The Line of Duty Death Audit, which was issued in December 2004, has two open findings.

III. NEW BUSINESS

- A. **Crowe Chizek Cash Reconciliation:** Mr. Nickerson explained that this project focused on looking at bank account reconciliations to address the State Board of Account (SBOA) findings.
- SBOA reported that bank balances were not being materially reconciled and there appeared to be accounting controls that were not effective. Mr. Nickerson indicated that Crowe Chizek's goal was to materially reconcile the accounts to address those specific findings. Part of that goal was understanding what the perspective was from SBOA, collaborating with them, as well as with PERF management, to find the best way to complete this task.
 - A two-year period (FY 03 and FY 04) was examined.
 - There are two primary bank accounts. One serves specifically for the 1977 Fund and pension relief checks. The other is for PERF funds, which consists of all the other funds. Approximately \$450 million flows through these accounts in benefit activity each year.
 - Crowe Chizek's conclusion after their review of the cash balances in that two-year time period was that there was still reconciling differences within the 1977 Fund of approximately \$4,000. Within the PERF funds there was still a reconciling difference of approximately \$3.7 million.
 - Mr. Nickerson said, however, the bank statement balances were adequate to cover outstanding checks. He noted that SBOA had indicated that this was not the case therefore this was a positive result of their review.
 - Mr. Nickerson also noted that they were able to reduce the differences that were estimated in the past. Crowe Chizek approached this review from the standpoint of starting from scratch.

The next part of Mr. Nickerson's presentation focused on the impact Crowe Chizek's work had on the general ledger of the PERF Funds.

- Crowe Chizek recommended adjustments approximating \$3.9 million. Those adjustments reduced the cash balance that was reported on the general ledger.
- The primary difference was that payroll tax withholding payments were not being recorded properly on the general ledger.
- Another area where Crowe Chizek found a difference was related to extract reports from SIRIS. Some of the reports

coming from SIRIS were incomplete. The database was fine, but the extract report was missing data that caused an error in recording on the general ledger.

Mr. Nickerson provided an overview of how SIRIS operates within the cash area.

- One of the functions of SIRIS is to produce and process checks. The checks are generated from the benefit check register within SIRIS and then the beneficiary checks are cut. Issues that might cause temporary discrepancies would be outstanding checks, voided checks, replaced checks, and lost or returned checks. Mr. Nickerson said that the main problem causing differences was timing. He noted that the more we can close the gap on the timing issues, the better off the reconciliation process will be.
- Crowe Chizek identified approximately \$500,000 of adjustments to the outstanding check list. Most of these adjustments related to errors on bank tape uploads where the bank upload was incomplete (this error is currently being looked at by IPSI). Another adjustment, as mentioned earlier, was timing. Mr. Nickerson noted that one of the areas of improvement as procedures are developed is to get the timing synchronized between SIRIS and the manual processes that the staff has to perform.

Mr. Nickerson concluded by saying that the PERF financial management team should be able to reconcile bank activity on a monthly basis once improvements have been completed and training has been provided on the SIRIS general ledger extract reporting tool and also once the policy and procedure manual has been completed. He noted that the reconciliation work Crowe Chizek completed was also provided to SBOA for review.

- B. Pre-Employment Screening Policy:** Ms. Julian reminded the Board that the Pre-Employment Screening Policy was first approved in October, 2002, and that it outlines steps to take prior to hiring new staff. Ms. Julian noted that PERF has found that there are occasions when management would like to make contingent offers to preferred candidates to let them know our interest in hiring them. Staff has added proposed new language to the current policy stating that contingent offers of employment may be made pending the receipt and evaluation of background checks, and when appropriate, reference checks. The offer must be in writing and clearly indicate that the offer of employment is contingent upon a background and reference check that is acceptable to PERF.

MOTION duly made and carried to amend the Pre-Employment Screening Policy Statement to allow offers of employment to candidates contingent upon acceptable background and reference checks.

Proposed by:

Garland Ferrell

Seconded by:

Bob Welch

Votes:

Five in favor, 0 against, 0 abstentions

C. Legislative Update: Ms. Julian and Ms. Braitman provided an update on bills that pertain to PERF.

- **HB1048 – TRF and PERF Military Service Credit:** This bill awards up to four years of service credit for members who have served in the armed services. The member must have at least 10 years of creditable service.
- **HB1188 – Moratorium for Boards and Commissions:** This is a one year moratorium that starts July 1, 2005 and goes through June 30, 2006. This bill would put a moratorium on any official action by the Board during that time. The Governor could authorize exceptions to the moratorium on a case by case basis.
- **HB1195 – Pension Contributions:** This bill provides that records containing mandatory contributions by the state or another employer to PERF that are paid on behalf of an individual would become public records.
- **HB1227 – PERF Survivor Benefit:** This bill conforms the PERF survivor benefit requirements to the TRF survivor benefit requirements for a surviving spouse or dependent of a member who is at least 65 years of age and has between ten years and 14 years of service and dies in service.
- **HB1235 – Reemployment of PERF and TRF Members:** Currently there is a earnings limitation of \$25,000 that a person in a covered position can earn before their benefits must stop and must begin making contributions again to the Fund. This bill would increase that limit to \$45,000.
- **HB1311 – PERF Military Service Credit:** This bill grants up to two years of service credit for a person in the armed forces. The member must have at least 20 years of employment with the state and annual compensation can't exceed \$50,000.
- **HB1328 – Police and Firefighter Death Benefits:** This bill increases the death benefit for members of the 1925 Police Pension Fund, the 1937 Firefighters' Pension Fund, the 1953 Police Pension Fund and the 1977 Police Officers' and Firefighters' Pension and Disability Fund from \$9,000 to \$12,000.

- **HB1344 – Excise Police and Conservation Officer Pensions:** This bill directs PERF to add the DROP program for the excise police and conservation officer members. It drops the minimum age of 55 from the formula of the rule of 85. It also changes the benefit formula to 25% at ten years plus 1 2/3% for all years over ten.
- **HB1345 – Prosecuting Attorneys’ Pensions:** This bill would reduce the vesting rule of four from ten years to eight years.
- **HB1347 – Judges’ Pensions:** This bill adds full time magistrates to the 1985 Judges’ Plan and it allows them to purchase service credit for prior service that they earned in PERF. This bill also gives the retirees and survivors of that plan a COLA based upon the same conditions that a COLA is awarded to PERF.
- **HB1348 – Public Safety Disability Pensions:** This bill creates a presumption that public safety officers who incurred certain cancers or a heart or lung disease while actively employed has incurred a disability in the line of duty. PERF would seek from the IRS approval to have the disability benefit for a presumptive condition declared as non-taxable.
- **HB1394 – Teachers’ Retirement Fund Beneficiary Change:** This bill allows a member of the Teachers’ Retirement Fund who is receiving a retirement benefit and is a party in an action for dissolution of marriage to elect in certain circumstances to change the member’s designated beneficiary or form of benefit.
- **SB88 – Judges’ Retirement Benefits:** This bill allows a retired judge who receives a state salary for services currently performed to also receive a judges’ retirement benefit.
- **SB131 – Disability Benefits for Public Safety Officers:** This is also a bill relating to police officers and firefighters in the old plans and the ‘77 Fund who develop cancer or heart conditions. In this bill they would be entitled to 75% of the salary of a first class patrolman or firefighter if they become disabled. It also provides a death from cancer or a heart condition is a death in the line of duty.
- **SB149 – Trustees of Pension Funds:** This bill adds the director of the budget agency or the director’s designee to the board of PERF and TRF.
- **SB203 – Increase of PERF Multiplier:** This bill provides that the multiplier used in calculating pension benefits for members of PERF who retire after June 30, 2005, is 1.1% plus an additional 0.02% for each year of service in excess of ten years, with a maximum multiplier of 1.5%.
- **SB259 – Rulemaking by Instrumentalities of the State:** This applies to PERF because the last time the board powers were expanded, the board was given the authority to make rules.

This bill is to bring all bodies, corporate and politic, and other instrumentalities into the rule making process.

- **SB298 – Administrative Rules Requiring Fiscal Review:** This would require a fiscal review for rules that have an estimated impact greater than \$500,000.
- **SB328 – Penalty for Open Door or Public Records Violation:** This bill provides for civil penalties and attorney fees if there is a knowing violation of the Open Door Law by an individual who, as a member of a governing body, participates in a public meeting.
- **SB363 – Judicial Salaries:** This provides an automatic increase for judges to receive the same increase that other state employees would receive.
- **SB374 – Police Officer and Firefighter Hiring Age:** This bill increases the maximum hiring from 36 to 40 years of age for police and firefighters.

D. Summary of the Executive Orders: Ms. Julian provided a handout with a summation of 11 Executive Orders that could have an impact on PERF. Ms. Julian noted that the impacts mentioned in the summation may not be all inclusive.

- **Executive Order 05-02, Creation of the Office of Management and Budget (OMB)**
 - Impact on PERF: At this time, it is not entirely clear how this provision will be implemented, but we are actively working with a representative of OMB on issues affecting PERF.
- **Executive Order 05-03, Creation of the Office of Inspector General (OIG)**
 - Impact on PERF: PERF employees and those doing business with PERF are required to be properly trained in, and abide by, the code of ethics adopted by the OIG.
- **Executive Order 05-04, Continuing the Office of Public Finance**
 - Impact on PERF: The Office of Public Finance will oversee our management activities and investment matters. The new Public Finance Director is directed to participate in the Investment Committee meetings, as well as taskforces of PERF and TRF. The Public Finance Director is also authorized to recommend qualified candidates for membership on finance and related boards which would include PERF.

- **Executive Order 05-05, Establishment of the “Buy Indiana” Presumption**
 - Impact on PERF: Although this order doesn’t formally apply to PERF, the board may want to consider it a matter of public policy and may want to decide to opt into the procedures for goods and services. Investments would need greater research and analysis as to the applicability.
- **Executive Order 05-06, Directive to Account for All State Assets and to Divest or Unused or Underutilized Assets**
 - Impact on PERF: The Department of Administration and OMB will be provided an accounting of state assets so that all underutilized assets could be disposed of. When new guidelines are issued, we would be required to provide this inventory.
- **Executive Order 05-07, Directive to the Department of Administration to Log Written State Contracts to the Internet**
 - Impact on PERF: PERF is required to comply with DOA’s policies and procedures for posting contracts to the Internet. Such policies and procedures have not yet been implemented. PERF already has in place a computerized tracking system for all contracts, so we may be able to utilize that information to provide for the Internet posting.
- **Executive Order 05-11, Recognition of Private Minority Business Enterprise Certification**
 - Impact on PERF: Our contract and procurement procedures would need to comply with the Indiana Regional Minorities Supplier Development Council’s MBE certification program and the DOA rules that will be formalizing that certification process.
- **Executive Order 05-12, Establishing Ethical Rules of Conduct for State Officers, Employees, and Special Appointees**
 - Impact on PERF: PERF officers, employees and special state appointees (PERF board members are considered special state appointees) are required to comply with the ethical rules of conduct. Also, PERF is required to notify the State Ethics Commission within 30 days of the date of this Order that we are under this jurisdiction. However, the board opted for PERF employees to be under the jurisdiction of the State Ethics Commission in July, 2003, so no action other than notification is necessary.

- **Executive Order 05-14, Providing a Complaint Procedure to State Employees and Rescinding Certain Prior Executive Orders**
 - Impact on PERF: We do have a small number of employees that are union employees that are affected by this decision.
- **Executive Order 05-17, Creation of the Office of Technology**
 - Impact on PERF: This Order requires that our budget requests and proposed contracts that relate to information technology are subject to the Office of Technology's review. We are still trying to determine how exactly this applies to PERF and IPSI.
- **Executive Order 05-18, Maintenance of Salary and Health Coverage for Active Duty Military Personnel Employed by State Government**
 - Impact on PERF: With regard to the continuation of participation in any pre-tax account, it is not clear how this impacts an employee who may have opted into the Pre-Tax Voluntary Contribution Program before reporting for active military service.

IV. COMMITTEE REPORTS/RECOMMENDATIONS

- A. **Investment Committee**: Mr. Doermer explained that there were three primary items on the agenda. One was the consideration of possible private equity managers, which the committee elected to defer and consider at a later date.

The second point was a presentation from the Turner Investment Partners group. The presentation was prompted primarily by the volatility that PERF has observed in that particular portfolio. Their performance over an extended period, however, has been superb, but we wanted to understand what prompted the volatility and what other principles were involved in their investment processes. Turner presented their position rather clearly and as a result, the Committee is not recommending any change from Turner at this time. As a side note, the Mercer organization also took that position. Mercer explained Turner's processes more thoroughly and indicated that we should indeed retain Turner.

Lastly, Mr. Doermer said that the Committee considered the December Performance Report as presented by Mr. Fink. He noted that he is pleased to report that in every measuring time

period (a three year time period and a five year time period), the PERF investment performance exceeded the applicable benchmark.

- B. Benefits Committee:** Ms. Thurman reported that PERF is still processing checks within the 65-70 day time frame. The refund requests continue to grow. The responses are still very good on our Customer Satisfaction Surveys. There were 57,000 retirement benefits paid. PERF scanned 367,704 pieces of paper last year, but hope that many documents can be reduced to electronic files in the future. The Outreach group held 215 meetings with employees and employers throughout the state, meeting with a total of total of 11,000 people. The Call Center handled 101,000 calls.

Ms. Thurman noted that the Committee approved the new unit Kipp Indianapolis College Preparatory, a charter school, which is covering two positions.

MOTION duly made and carried to approve the new unit, Kipp Indianapolis College Preparatory charter school, that will be covering two positions.

Proposed by:
Seconded by:
Votes:

Jon Birge
Richard Doermner
Five in favor, 0 against, 0 abstentions

Ms. Thurman noted that Ms. Clift reported on the workload in the IT department. She said that IT is really doing a good job and making necessary changes and doing what needs to be done.

V. REPORT OF ACTING EXECUTIVE DIRECTOR

Mr. Kimery said that the end of December and January are busy times for PERF. Payroll was sent out last week. Quarterly Statements went out with most people receiving them on January 15, 2005. An updated newsletter for members and retirees was included in the Quarterly Statement. PERF is also in the process of mailing the 1099s. In an effort to try to reduce the number of calls PERF gets on 1099s, there was an insert prepared that addresses the most frequently asked questions that the Call Center typically receives. Mr. Kimery noted that on Wednesday, we mailed 3,437 checks from temporary accounts with a balance of less than \$200. The addresses from these accounts were matched against the Postal Locator Service and against the Department of Revenue and took the most current address we could find. Due to IPSI installing new software and updating the database server, it now takes only three and a half hours to run the quarter interest posting for PERF and TRF both.

Prior to IPSI tweaking the system with new software and updates, SIRIS was down a whole day to do the quarter interest posting. Mr. Kimery noted that this is a major breakthrough for PERF.

Mr. Kimery passed out a letter regarding what was discussed with the Office and Management and Budget (OMB). He noted that the meeting with OMB went well. Everything that was outlined in the three page memo we presented to the OMB was approved. Chair Birge added that he, too, felt the meeting went very well. He said that our message to OMB was that we wanted to fully cooperate with them as we move forward.

VI. DATE OF NEXT MEETING

Due to a scheduling conflict the date of the next Board of Trustees meeting will be moved from February 18, 2005 to February 25, 2005.

VI. ADJOURNMENT

There being no further business, the meeting was adjourned.